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RUEHHK/AMCONSUL HONG KONG 6100  
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C O N F I D E N T I A L SECTION 01 OF 03 SINGAPORE 003124

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STATE PASS TREASURY FOR SECRETARY PAULSON

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TAGS: [EFIN](#) [ECON](#) [ETRD](#) [EINV](#) [PREL](#) [IMF](#) [IBRD](#) [ETTC](#) [SN](#)

SUBJECT: SECRETARY PAULSON DISCUSSES CHINA AND SOUTHEAST  
ASIA WITH SINGAPORE'S SENIOR LEADERS

Classified By: Economic and Political Chief Ike Reed.  
Reasons 1.4 (b) (d)

¶1. (C) Summary: Singapore's senior leaders urged the United States to stay engaged in Southeast Asia, particularly in terms of strategic/military and trade issues, during meetings with Secretary Paulson on September 18. On China, Prime Minister Lee Hsien Loong told the Secretary that the U.S. Government (USG) needed to engage state-owned enterprise and political leaders, and not just technocrats like People's Bank of China Governor Zhou. Senior Minister Goh Chok Tong offered to reinforce with Chinese officials the need to work with us on the currency issue. He agreed that the Chinese should be willing to allow some additional appreciation of the Yuan. PM Lee claimed that previously stalled Singapore-China Free Trade Agreement (FTA) discussions were back on track. Both PM Lee and SM Goh expressed optimism about Vietnam's prospects, although SM Goh warned that failure by the private sector to generate adequate employment could derail reform efforts. Citing Indonesia as key to Southeast Asia's stability and economic growth prospects, SM Goh cautioned the USG not to embrace the GOI too publicly, which could generate political difficulties for moderate and secular officials. Both PM Lee and SM Goh raised Singapore's desire to conclude a tax treaty with us. End Summary.

¶2. (U) During his participation in the G7 and Singapore-hosted IMF/World Bank meetings, Secretary Paulson on September 18 met separately with Singapore Prime Minister LEE Hsien Loong, Senior Minister GOH Chok Tong (both meetings reported here), and Minister Mentor LEE Kuan Yew.

Southeast Asia Focus: Strategic/Military  
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¶3. (SBU) Asked what could be working better in our bilateral relationship, PM Lee highlighted three issues. He said that it was important for the United States to appreciate its strategic role in the region. He noted that the United States and Singapore shared a very broad perspective, particularly on terrorism matters. PM Lee, like SM Goh, stressed that no other country (e.g. Japan) could play the same military/strategic role and that the United States provided much needed stability and predictability.

Trade  
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¶4. (SBU) PM Lee commented that the U.S.-Singapore FTA had

worked well and resulted in other countries negotiating FTAs of their own. He asserted that Malaysia, Thailand, and South Korea would not have started their respective FTA negotiations had Singapore not done so initially. He cautioned that concluding FTAs with these countries would not be as easy as with Singapore because of agricultural and preferential procurement issues.

#### Tax Treaty

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15. (C) PM Lee underscored Singapore's desire to conclude a bilateral tax agreement with the United States. He noted that a team would meet in Washington this November to discuss at least two technical issues that needed to be addressed before negotiations could be considered. Acknowledging the importance of information exchange to the United States, PM Lee said that Singapore did not have a problem sharing information with the USG; however, if Singapore agreed to do so in a treaty, it would receive similar requests from others, including the EU, Japan and neighboring states. Nonetheless, Singapore was willing to agree to this requirement as part of a package that finalized the deal, he explained. (Comment: it was not clear whether PM Lee was suggesting Singapore would agree to information exchange as a provision of the tax treaty or as a side arrangement. End comment.)

16. (C) On the issue of coverage, PM Lee said he understood that the United States wanted a tax treaty that would apply to both U.S. and Singaporean firms. For the treaty to be valuable to Singapore, however, it also needed to cover foreign firms (that comprise a large part of the local

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economy) that were legitimately based in Singapore, he said. PM Lee suggested that there should be ways to ensure these firms were operating legitimately and not using Singapore solely to take advantage of a treaty. SM Goh encouraged Secretary Paulson not to consider the tax treaty agreement in

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isolation, but rather in light of Singapore's special role in the region. He argued that Singapore should get better treatment than other countries because it was "small, fragile and vulnerable." He asserted that the United States should want to "help keep Singapore open," given worrisome trends in some of its neighboring countries. Secretary Paulson was non-committal, but agreed to look into PM Lee's and SM Goh's requests.

China

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17. (C) PM Lee advised Secretary Paulson that it would be good for the United States to engage China at a senior level and to think beyond the next party Congress. This meant state-owned enterprise leaders and other political leaders, not just technocrats such as PBOC Governor Zhou, he said. Secretary Paulson concurred that in order to get change, he

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would have to get the Chinese political leadership to agree. Secretary Paulson noted that he would be meeting with Premier

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Wen Jiabao and President Hu Jintao in Beijing after leaving Singapore. PM Lee commented that, while China's leaders were not "as good as" predecessors such as Premier Zhu Rongji, they did enjoy broader support and could get things done. Secretary Paulson observed that it now took more time in

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China to achieve consensus, but that older leaders could still wield influence.

18. (C) In response to SM Goh's offer to help reinforce any messages, Secretary Paulson said that the currency issue had become a symbol and a flash point in the U.S.-China relationship. SM Goh advised that, so long as the United States did not pressure the Chinese, they would listen. SM Goh said the Chinese remained concerned about the effect a revaluation of the Yuan would have on state-owned enterprises and employment, but agreed with Secretary Paulson that the Chinese should be willing to "float a bit more." SM Goh commended Secretary Paulson for not "bashing the Chinese," observing that this approach would help speed change; the Chinese were "not rigid" and "want to learn." SM Goh said that he would ensure that the GOS passed a message of support to the Chinese government.

#### Singapore-China FTA

19. (SBU) PM Lee noted that Singapore had been trying to negotiate a free trade agreement with China, but that his trip to Taiwan just a few months before he became prime minister in August 2004 had, among other things, delayed this process after China ceased talks to show its displeasure. PM Lee asserted that these discussions were now back on track.

#### Vietnam

10. (C) Secretary Paulson observed that the mood in Vietnam was "receptive" to economic reform. The country was "going with the current" but not fast enough due to its sluggish bureaucracy, corruption, and inconsistent laws and courts. Secretary Paulson told SM Goh he was not as optimistic about

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Vietnamese economic prospects after it entered the WTO. Although Vietnam's leaders were knowledgeable and said the right things, they needed to keep pushing reform, he said; the university system also needed help. PM Lee responded that Vietnam used to be worse; it was still harder than China to do business, but cheaper. Vietnam's leaders were focused and recognized the need to catch up, he said. PM Lee emphasized that Singapore was "bullish" on Vietnam, citing its investment in an industrial park there 10 years ago. SM Goh said that Vietnam was too often overlooked and the United States should be encouraging economic growth. SM Goh cautioned, however, that Vietnam's reforms could falter unless the private sector generated a sufficient number of jobs. Secretary Paulson agreed that Vietnam had improved since his last visit in 1994, but that it would still be some time before the economy took off. He expressed concern that

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many business students with whom he met during the APEC Finance Ministers' meeting in September believed life would "instantly change" after WTO entry.

#### Indonesia

11. (C) SM Goh encouraged Secretary Paulson to become more involved in Southeast Asia. He urged the United States to pay particular attention to Indonesia since its failure to grow would prove "troublesome" for the region as a whole. Secretary Paulson reiterated our strong commitment to ASEAN

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and the region, noting that this was one of the main reasons he attended APEC and met Indonesian Minister of Finance Sri Mulyani. SM Goh praised the Indonesian government's moderate public statements to date, but cautioned Secretary Paulson to not embrace the GOI too publicly since this might create domestic political problems for Indonesia's more moderate and secular officials.

12. (U) Secretary Paulson's staff cleared this message.

